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FISCAL IMPACT STATEMENT

LS 6478 | **NOTE PREPARED:** Dec 15, 2012
BILL NUMBER: SB 289 | **BILL AMENDED:**

SUBJECT: Sales Tax Increment Financing Areas.

FIRST AUTHOR: Sen. Grooms | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill provides that a Military Base Reuse Authority (MBRA) may designate a Sales Tax Increment Financing area (STIF area) if the MBRA finds that there are certain obstacles to redevelopment or development within the proposed area.

The bill requires the MBRA to submit the resolution designating the STIF area to the State Budget Committee for review and recommendation to the State Budget Agency (SBA) . The SBA must review the proposals and approve or disapprove the STIF area within 6 months. The bill states that a STIF area may exist for up to 15 years after the area is initially approved by the SBA. However, the MBRA may extend the duration of the STIF area for an additional 15 years or less. The bill states the Department of State Revenue (DOR) and the Auditor of the State shall collaborate to insure the appropriate funds are distributed from the state General Fund to the local sales tax increment financing fund.

This bill specifies that a MBRA may only use incremental sales tax amounts to pay costs related to infrastructure within the STIF area. That includes debt service or lease payments on bonds or leases that are issued or entered into to finance infrastructure or to lease infrastructure.

Effective Date: Upon passage.

Explanation of State Expenditures: *Department of State Revenue:* The DOR will be required to compute the base period sales tax amount and the incremental sales tax amount for each STIF area. While the total increase in administrative costs depends on the total number of STIF areas created, the DOR has expertise making these calculations for community revitalization enhancement areas (CREDs), certified technology parks, and professional sports development areas (PSDAs). The DOR should have sufficient resources and staff to implement the provisions in the bill.

Auditor of the State: The Auditor of the State will be required to deposit the incremental sales tax revenue collected to the appropriate MBRA local sales tax increment financing fund. The Auditor of the State should have sufficient resources and staff to implement the provisions in the bill.

State Budget Agency: The SBA must administer the approval process and make the final determination to establish the STIF area. The SBA has expertise reviewing and approving CREDs and PSDAs. The SBA should have sufficient resources and staff to implement the provisions in the bill.

Explanation of State Revenues: *Summary -* This bill allows the Military Base Reuse Authorities (MBRAs) to establish STIF areas to capture revenue for infrastructure related-projects. A STIF established under the bill would divert Sales Tax revenue from the state General Fund to the MBRA's sales tax incremental financing fund. The amount of Sales Tax diverted depends on the number of STIF areas established and the Sales Tax revenue collected by businesses operating within the STIF areas.

If the three MBRAs in the state are allowed to establish STIF areas, a total of $1.88 M in annual sales tax revenue could potentially be diverted from the state General Fund to the MBRAs. This estimate is based on historical sales tax capture by certain CREDs.

The net revenue impact of diverting Sales Tax revenue from the state General Fund to MBRAs depends on the extent to which revenue from other taxes attributable to the investment in the STIFs is impacted. However, if the investment would have occurred in the absence of the STIF areas, the state incurs a revenue loss equal to the total amount of Sales Tax collections diverted to the MBRAs.

Background Information -The amount of Sales Tax revenue diverted from the state General Fund is the difference between the annual amount of Sales Tax collected within the STIF area and the STIF area's base period Sales Tax amount. The amount diverted also depends on the number of STIF areas created and the Sales Tax collected by businesses operating within these areas. While there are a limited number of potential MBRAs, the data are not available to produce specific estimates for each one. However, certain CREDs could provide a benchmark. CREDs capture incremental Sales Tax revenue as a source of funding. In FY 2011, the median incremental Sales Tax revenue captured by CREDs established under the $1^{st}/2^{nd}$ class cities statute was $628,000. If three MBRAs are granted a STIF area, the estimated revenue loss would be approximately $1.88 M a year beginning in FY 2014 and continuing each year until the STIF areas are terminated. This estimate assumes the MBRA STIF areas will have a similar composition of businesses as the CREDs established under the $1^{st}/2^{nd}$ class cities statute. Those CREDS are the Downtown Bloomington, Downtown Fort Wayne, and Lafayette Square Indianapolis CREDs.

Sales Tax collections are currently deposited in the state General Fund (99.848%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Explanation of Local Expenditures: If an MBRA decides to create a STIF area, there will be an increase in the MBRA's administrative costs to create a local sales tax increment financing fund and provide the DOR updated lists of entities operating within the STIF area.

Background Information - Military Base Reuse Authority: An MBRA is a local development organization created to plan, rehabilitate, and develop inactive or closed military bases or military base properties for other public or private uses. Three MBRAs could immediately pursue establishing a STIF area: Fort Benjamin Harrison, Grissom Aeroplex, and the River Ridge Commerce Center (the former Indiana Army Ammunition Plant). However, Indiana has seven other military sites that could potentially establish a STIF area.

Explanation of Local Revenues: Using the median incremental sales tax revenue collected from CREDs as a benchmark, each MBRA STIF area could potentially receive an estimated $628,000 a year deposited in captured sales tax revenue beginning in FY 2014. The exact revenue received from the STIF area depends on the businesses operating within the STIF area and the overall economic climate.

The Sales Tax revenue diverted to an MBRA STIF area may be used only to pay the costs of infrastructure projects, including to make payments on bonds issued to finance the payment of infrastructure costs.

The MBRA must administer the local sales tax increment financing fund. The money in the local sales tax increment financing fund does not revert to any other fund at the end of the MBRA's fiscal year. A newly designated STIF area can exist for up to 15 years. Then, the bill provides the STIF area may be extended for an additional 15 years.

State Agencies Affected: Auditor of the State; Department of State Revenue; State Budget Agency.

Local Agencies Affected: Military Base Reuse Authorities.

Information Sources: LSA Fiscal Issue Brief, *Indiana's Geographically Targeted Development Programs: Community Revitalization Enhancement Districts*, July 1, 2012; River Ridge Commerce Center website: http://www.riverridgecc.com/; Miami County Economic Development Authority website: http://www.miamicountyeda.com/; Fort Harrison Reuse Authority website: http://www.fhra.org/about/home/default.aspx

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